



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	HB0169	Title:	Revise individual income tax laws
Primary Sponsor:	Wittich, Art	Status:	As Introduced

- ☐ Significant Local Gov Impact
 ☐ Needs to be included in HB 2
 ☒ Technical Concerns
☐ Included in the Executive Budget
 ☐ Significant Long-Term Impacts
 ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	(\$79,104,000)	\$0	\$0
Net Impact-General Fund Balance:	<u>\$0</u>	<u>(\$79,104,000)</u>	<u>\$0</u>	<u>\$0</u>

Description of fiscal impact: This bill would create a temporary credit for property tax on a taxpayer's residence and would temporarily reduce income tax rates for 2016. This would reduce general fund revenue in FY 2017 by \$79.1 million.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. This bill would create a non-refundable credit of up to \$100 for property tax on a taxpayer's primary residence. Taxpayers who take the credit must reduce their itemized deduction for property taxes by the amount of the credit. This credit would only be available for TY 2016.
2. For TY 2016, this bill would set income tax, before credits, equal to 95% of the tax from the rate table.
3. The Census Bureau estimates that there are approximately 271,000 owner-occupied housing units in Montana. About 11,000 of these property owners have incomes that are too low to pay income tax. About another 10,000 have incomes low enough that they would pay less than \$100 in income tax.
4. Full credits of \$100 would be claimed by 250,000 taxpayers, and 10,000 taxpayers would claim partial credits averaging \$50. Total credits would be \$25.5 million.

5. The income tax forecasting model was modified to reflect the temporary rate reduction and lower property tax deductions for taxpayers who claim the credit. The modified model predicts tax liability for TY 2016 that is \$53.604 million lower than the baseline.
6. Few taxpayers would adjust their withholding or estimated payments because of the credits and temporary rates in this bill. It is assumed most would receive larger refunds or make smaller payments when they file their TY 2016 returns in the spring of CY 2017 which is in FY 2017. Taxpayers who do adjust withholding or estimated payments are likely to take time to do so and are most likely to make any adjustments in the second half of CY 2016, which also is in FY 2017. Thus, the entire revenue reduction of \$79.104 million is assumed to occur in FY 2017.
7. The department would make changes to tax returns and instructions as part of the normal annual update process with no additional costs.

<u>Fiscal Impact:</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
<u>Department of Revenue</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
<u>Expenditures:</u>				
TOTAL Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenues:</u>				
General Fund (01)	<u>\$0</u>	<u>(\$79,104,000)</u>	<u>\$0</u>	<u>\$0</u>
TOTAL Revenues	<u>\$0</u>	<u>(\$79,104,000)</u>	<u>\$0</u>	<u>\$0</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	<u>\$0</u>	<u>(\$79,104,000)</u>	<u>\$0</u>	<u>\$0</u>

Technical Notes:**Department of Revenue**

1. Experience with previous property tax credits suggests that questions regarding eligibility will arise. In the past, issues have included eligibility for taxpayers who have had a change of residence during the year, hold dwellings under joint ownership, dwellings on large parcels, and dwellings held under indirect ownership through a business entity. Administrative rules will be needed to address with these issues. Bill language recognizing these issues and providing guidance could make the implementation process clearer.
2. Section 2 refers to “the tax year ending December 31, 2016,” while Section 4 says that this bill applies to “the tax year beginning after December 31, 2015.” There are a few cases where individual taxpayers are allowed to use a tax year that is different from the calendar year. To avoid confusion in these cases, similar language in both places could provide clarification.

*Sponsor's Initials*_____
*Date*_____
*Budget Director's Initials*_____
Date